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BUSINESS INF. DIV.  
CORPORATION FILE



# Walgreens

ANNUAL REPORT, 1965

# Walgreen Co.

## Directors:

A. A. BORG  
SANFORD J. BOWYER  
C. R. CAMPBELL

ROBERT G. KNIGHT  
C. E. LA FRAMENTA  
C. W. MULANEY

S. S. RAAB  
C. R. WALGREEN, III  
C. R. WALGREEN, JR.

## Officers:

C. R. WALGREEN, JR.  
CHAIRMAN OF THE BOARD  
A. A. BORG  
PRESIDENT  
C. R. CAMPBELL  
VICE PRESIDENT, TREASURER  
M. R. KEPHART  
VICE PRESIDENT  
C. E. LA FRAMENTA  
VICE PRESIDENT

C. W. MULANEY  
VICE PRESIDENT  
S. S. RAAB  
VICE PRESIDENT  
R. L. SCHMITT  
VICE PRESIDENT  
T. J. BARTON  
SECRETARY  
H. W. BECKER  
GENERAL AUDITOR  
W. H. REESE  
CONTROLLER

W. L. ALSTRIN  
ASSISTANT CONTROLLER  
O. G. GILE  
ASSISTANT SECRETARY  
W. K. MISKE  
ASSISTANT SECRETARY  
E. J. ROUBIK  
ASSISTANT TREASURER  
N. P. STARSHAK  
ASSISTANT SECRETARY

**Transfer Agents:** THE FIRST NATIONAL BANK OF CHICAGO  
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

**Registrars:** HARRIS TRUST AND SAVINGS BANK OF CHICAGO  
THE FIRST NATIONAL CITY BANK OF NEW YORK

**Walgreen General Offices,** 4300 Peterson Avenue, Chicago, Ill., 60646

## Results in Brief:

	<u>1965</u>	<u>1964</u>	<u>%</u>
SALES.....	\$432,510,980	\$391,325,977	+10.5
EARNINGS before income taxes	13,715,007	12,277,199	+11.7
NET EARNINGS.....	8,015,007	7,127,199	+12.5

## Per Share of Common Stock

NET EARNINGS.....	\$ 2.59	\$ 2.31
DIVIDENDS PAID.....	1.20	1.00
BOOK VALUE.....	21.11	19.71



A. A. Borg, President (left)  
and C. R. Walgreen, Jr.,  
Chairman of the Board:



## To Our Shareowners

December 10, 1965

It is a pleasure to report that the year ended September 30th was one of continued growth. Sales were \$432,510,980 compared with \$391,325,977, an increase of 10.5%. Net earnings amounted to \$8,015,007 or \$2.59 per share compared with \$7,127,199 or \$2.31 per share, an increase of 12.5%. At its last meeting your Board of Directors increased the quarterly dividend rate from 30¢ to 32½¢ a share beginning with the December payment.

This year our consolidated statement includes our real estate subsidiaries. Previously the net book value of these properties was included with "Investments in affiliated and other companies" with the accounts of these subsidiaries shown in the notes to Consolidated Financial Statements. Additional long term financing was arranged during the year to provide funds for expansion opportunities that would require funds in excess of those from retained earnings.

During fiscal 1965 we opened 32 new Walgreen drug stores (7 of which replaced previous smaller units) and 3 Globe self service department stores. We closed 19 stores. On September 30th we were operating 479 drug stores, 8 Globe self service department stores, and 6 Danburg junior department stores. Our expansion program was much larger than the previous year—although again, delays in the development of some shopping centers prevented us from opening as many units as we had planned. We anticipate an even larger store opening program for the current year.

We deeply regret the loss of Mr. R. G. Knight who recently passed on—a director of our company since 1930.

We wish to express our sincere appreciation to all the folks throughout our organization for their fine cooperation and their splendid efforts that helped to make this past year an outstanding one. Our new fiscal year is off to a good start and with the continuance of present economic conditions, we look forward to increased sales and earnings.

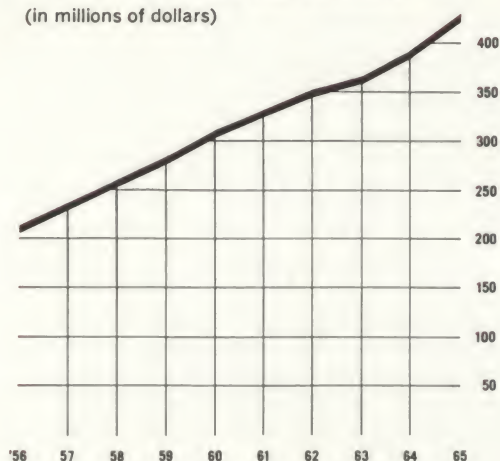
*A. A. Borg*  
President

*C. R. Walgreen, Jr.*  
Chairman of the Board

# 10 YEAR PROGRESS REVIEW

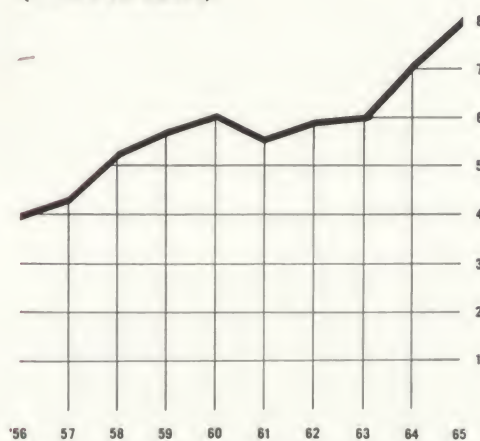
## SALES and other store income

(in millions of dollars)



## NET EARNINGS

(in millions of dollars)



YEAR ended Sept. 30	SALES and other store income	NET EARNINGS	CASH DIVIDENDS PAID	RETAINED EARNINGS	DEPRECIATION & AMORTIZATION	PER SHARE		
						EARNINGS (2)	DIVIDENDS PAID (3)	BOOK VALUE(2)
IN THOUSANDS OF DOLLARS						IN DOLLARS		
1965	\$432,511	\$8,015	\$3,707	\$4,308	\$3,337	\$2.59	\$1.20	\$21.11
1964	391,326	7,127	3,083	4,044	3,136	2.31	1.00	19.71
1963	366,748	6,028	2,451	3,577	2,973	1.96	.80	18.42
1962	353,144	5,978	2,573 <sup>(1)</sup>	3,405	2,742	1.96	.80 <sup>(1)</sup>	17.31
1961	331,666	5,594	2,519 <sup>(1)</sup>	3,075	2,471	1.90	.80 <sup>(1)</sup>	16.53
1960	312,365	6,011	2,416 <sup>(1)</sup>	3,595	2,251	2.06	.80 <sup>(1)</sup>	15.51
1959	285,079	5,772	2,284 <sup>(1)</sup>	3,488	2,087	1.99	.80 <sup>(1)</sup>	14.28
1958	259,898	5,313	2,456	2,857	1,929	1.85	.95	13.08
1957	235,111	4,305	2,391	1,914	1,780	1.50	.925	12.08
1956	212,283	4,033	2,391	1,642	1,530	1.40	.925	11.42

<sup>(1)</sup> Plus payment of 3% stock dividend.

<sup>(2)</sup> Based on common shares outstanding at year-end, adjusted for effect of two-for-one stock split in 1963 and 3% stock dividends paid in 1962, 1961, 1960 and 1959.

<sup>(3)</sup> Adjusted for two-for-one stock split in 1963.



# WALGREEN CO. and Subsidiaries

## Consolidated Statements of Earnings, Retained Earnings, and Source and Application of Funds

For the Years Ended September 30, 1965 and 1964

	<u>1965</u>	<u>1964</u>
<b>Earnings</b>		
NET SALES AND OTHER STORE INCOME.....	\$432,510,980	\$391,325,977
<b>COSTS AND DEDUCTIONS:</b>		
Cost of sales.....	312,933,427	283,320,873
Selling, occupancy and administration.....	104,216,745	94,254,641
Contribution to Employees' Profit-Sharing Retirement Trust.....	1,645,801	1,473,264
Federal and state income taxes.....	5,700,000	5,150,000
	<u>424,495,973</u>	<u>384,198,778</u>
NET EARNINGS.....	<u>\$ 8,015,007</u>	<u>\$ 7,127,199</u>

### Retained Earnings

BALANCE, beginning of year.....	\$ 38,005,650	\$ 33,961,272
Net earnings.....	8,015,007	7,127,199
Cash dividends (\$1.20 per share in 1965 and \$1.00 in 1964).....	(3,707,114)	(3,082,821)
BALANCE, end of year.....	<u>\$ 42,313,543</u>	<u>\$ 38,005,650</u>

### Source and Application of Funds

<b>SOURCE OF FUNDS:</b>		
Net earnings.....	\$ 8,015,007	\$ 7,127,199
Depreciation and amortization.....	3,336,575	3,136,398
Increase in deferred Federal income taxes.....	500,000	475,000
Increase in long-term debt.....	10,401,019	2,664,317
Other sources.....	129,878	123,840
	<u>\$ 22,382,479</u>	<u>\$ 13,526,754</u>
<b>APPLICATION OF FUNDS:</b>		
Net additions to property and equipment.....	\$ 6,564,760	\$ 5,239,810
Cash dividends.....	3,707,114	3,082,821
Additional investment in affiliated and other companies.....	107,612	207,849
Increase in working capital.....	12,002,993	4,996,274
	<u>\$ 22,382,479</u>	<u>\$ 13,526,754</u>

The accompanying notes to consolidated financial statements are an integral part of the above statements.

# WALGREEN CO. and Subsidiaries

**Consolidated**

## Assets

	September 30,	
	1965	1964
<b>CURRENT ASSETS:</b>		
Cash.....	\$ 6,424,538	\$ 6,544,054
Marketable securities, at cost, not in excess of market.....	9,586,629	—
Accounts receivable, less reserves.....	6,560,699	5,487,025
Inventories, at the lower of cost or market, less reserves.....	63,562,358	58,883,064
Prepaid rent, insurance, taxes, etc.....	1,577,479	1,158,381
<b>TOTAL CURRENT ASSETS.....</b>	<b>87,711,703</b>	<b>72,072,524</b>
<b>INVESTMENTS IN AFFILIATED AND OTHER COMPANIES,</b> at cost (equity in underlying book values or market value \$7,290,000 in 1965 and \$6,244,000 in 1964).....	<b>2,544,226</b>	<b>2,436,614</b>
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Land.....	2,043,764	1,843,734
Buildings and improvements to leased properties.....	7,752,985	6,293,220
Equipment.....	43,989,147	40,646,549
	<b>53,785,896</b>	<b>48,783,503</b>
Less—Reserves for depreciation and amortization.....	21,568,249	19,794,041
<b>NET PROPERTY AND EQUIPMENT.....</b>	<b>32,217,647</b>	<b>28,989,462</b>
<b>GOODWILL, at nominal value.....</b>	<b>1</b>	<b>1</b>
	<b>\$122,473,577</b>	<b>\$103,498,601</b>

The accompanying notes to consolidated financial

**Balance Sheet**

**Liabilities**

	<u>September 30,</u>	
	<u>1965</u>	<u>1964</u>
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable.....	\$ 15,397,162	\$ 14,497,966
Accrued expenses and other liabilities.....	11,753,727	10,434,020
Federal and state income taxes.....	4,237,512	3,745,469
Current maturities of long-term debt.....	1,059,612	134,372
<b>TOTAL CURRENT LIABILITIES.....</b>	<b><u>32,448,013</u></b>	<b><u>28,811,827</u></b>
<b>LONG-TERM DEBT, less current maturities shown above (Note 2):</b>		
Notes payable to banks.....	16,625,000	7,000,000
Mortgages payable.....	6,372,128	5,596,109
<b>TOTAL LONG-TERM DEBT.....</b>	<b><u>22,997,128</u></b>	<b><u>12,596,109</u></b>
<b>DEFERRED FEDERAL INCOME TAXES</b>		
(arising from accelerated depreciation).....	1,790,000	1,290,000
<b>SHAREOWNERS' EQUITY:</b>		
Common stock, \$5 par value, authorized 5,000,000 shares; issued and outstanding 3,091,120 in 1965 and 3,084,026 in 1964, at stated value (Note 3).....	22,924,893	22,795,015
Retained earnings (Note 2).....	42,313,543	38,005,650
<b>TOTAL SHAREOWNERS' EQUITY.....</b>	<b><u>65,238,436</u></b>	<b><u>60,800,665</u></b>
	<b><u>\$122,473,577</u></b>	<b><u>\$103,498,601</u></b>

statements are an integral part of the above statement.



## Notes to Consolidated Financial Statements

**1. PRINCIPLES OF CONSOLIDATION:** The consolidated statements include the accounts of the company and all subsidiaries including Walgreen Properties, Inc., which in prior years had been included in the balance sheet caption "Investments in Affiliated and Other Companies" at underlying book value. The 1964 amounts have been restated to reflect this change in principles of consolidation.

**2. LONG-TERM DEBT:** On August 16, 1965, the company entered into a new loan agreement replacing its previous loan agreement. Under the terms of the new agreement the company borrowed \$17,500,000 at 4¾% interest repayable in annual principal installments of \$875,000 through 1974 and \$9,625,000 in 1975. Under the terms of this agreement, (a) \$22,114,660 of consolidated retained earnings at September 30, 1965, is not available for payment of cash dividends, or for repurchase of the company's stock, and (b) consolidated net current assets must be at least \$25,000,000. Consolidated net current assets, as defined, are \$55,908,286 at September 30, 1965.

At September 30, 1965, the company had mort-

gages payable on certain store and warehouse properties at interest rates ranging from 4¾% to 5½%. These mortgages provide for monthly payments of principal and interest and become fully paid during the years 1982 to 1989. The annual payments for each of the next five years amount to \$514,484.

**3. STOCK OPTIONS:** In 1957, the shareowners approved a restricted stock option plan for key employees, including officers. At September 30, 1965, 9,580 shares are reserved for options which have been granted at prices ranging from \$11.99 to \$25.50. These options are exercisable beginning one year from the date of grant over a period not exceeding five years and in reduced amounts thereafter through 1967. During 1965, 1,807 shares became exercisable and 7,094 shares were exercised.

**4. LEASE OBLIGATIONS:** At September 30, 1965, the company and its subsidiaries had 422 leases expiring more than 3 years after that date (some of which contain percentage rental clauses) with minimum annual rentals of approximately \$9,069,000.

## Accountants' Opinion

ARTHUR ANDERSEN & CO.

CHICAGO, ILLINOIS

To the Board of Directors and  
Shareowners, WALGREEN CO.:

We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARIES as of September 30, 1965, and the related statements of consolidated earnings, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings, retained earnings and source and application of funds present fairly the financial position of Walgreen Co. and Subsidiaries as of September 30, 1965, and the results of their operations and the sources and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,  
November 8, 1965.

*Arthur Andersen & Co.*

**PHOTO, right:**

Close-up of our new 757 N. Michigan Ave.  
Store on Chicago's "Magnificent Mile"





**REPORTING ON**

# A Great Year of Growth

## PROGRESS HIGHLIGHTS

- 35 NEW STORES OPEN DURING FISCAL 1965
- GLOBE EXPANSION CONTINUES WITH OPENING OF 3 MORE GIANT UNITS
- PRESCRIPTION GROWTH AGAIN SETS RECORDS
- NEW PEAKS REACHED IN SALES AND PROFITS



**Reporting on A GREAT YEAR OF GROWTH:**

# EXPANSION GETS EXTRA THRUST



**OUR STORES GROW IN SIZE  
AS WELL AS IN NUMBER  
. . . A SOLID BASIS FOR  
GROWING PROFITABILITY**

Our constant opening of new, larger stores creates expansion statistics that translate rapidly into volume and profit growth. A 5-year recap (see graph) shows an increase in total store sales area of more than 1,238,000 square feet. At year-end we were operating 493 stores, of which 267, or 52%, were opened or underwent major modernization within the past 5 years. Our competitive condition is sound—we are newer, larger, stronger.

## **32 NEW WALGREEN DRUG STORES AND 3 NEW**

- ALBUQUERQUE, N.M.**, 7100 Lomas Blvd. (GLOBE)
- ALEXANDRIA, LA.**, MacArthur Village
- AUSTIN, TEX.**, Capital Plaza
- CAPARRA HEIGHTS, PUERTO RICO**, San Patricio Shopping Center
- \*CHICAGO, ILL.**, 757 N. Michigan Ave.
- CLEAR LAKE CITY (Houston), TEX.**, Camino South Shopping Center
- COLUMBUS, GA.**, Columbus Square Shopping Center
- COVINGTON, KY.**, Latonia Shopping Center
- DENVER, COLO.**, Northglenn Shopping Center
- DULUTH, MINN.**, 121 W. Superior St.
- ELK GROVE VILLAGE, ILL.**, The Grove Shopping Center
- FLINT, MICH.**, Dort Mall Shopping Center
- FORT COLLINS, COLO.**, University Plaza Shopping Center
- \*FORT WAYNE, IND.**, 914 Calhoun
- \*GALVESTON, TEX.**, 2222 Postoffice
- HAYWARD, CALIF.**, Southland Mall Shopping Center
- KINGSTON, N.Y.**, Kingston Plaza
- \*LAKE FOREST, ILL.**, 296 E. Deerpath

. . . additionally, a number of units were modernized,



# FROM 35 NEW STORES IN 1965



## GLOBES OPEN IN 19 STATES AND PUERTO RICO

- LITTLETON (Denver), **COLO.**, Littleton's Southglenn Shopping Center
- MILLBRAE, **CALIF.**, Millbrae Square
- \*MINNEAPOLIS, **MINN.**, 533 Hennepin
- NASHVILLE, **TENN.**, Richland Creek Shopping Center
- PHOENIX, **ARIZ.**, 7th Ave. & W. Camelback Road (GLOBE)
- PHOENIX, **ARIZ.**, 36th St. & E. Thomas Road (GLOBE)
- PHOENIX, **ARIZ.**, Maryvale Shopping City
- PHOENIX, **ARIZ.**, Sunnyslope Shopping Center
- \*ROCK ISLAND, **ILL.**, 1723-31 Second
- SANDY SPRINGS, **GA.**, Sandy Springs North Plaza
- SAN FRANCISCO, **CALIF.**, 2125 Chestnut
- SARASOTA, **FLA.**, Gulf Gate Plaza
- SIOUX CITY, **IA.**, 100 Pierce St.
- \*ST. LOUIS, **MO.**, Hampton Village
- TOPEKA, **KAN.**, White Lakes Shopping Center
- TULSA, **OKLA.**, Southland Shopping Center
- WATERLOO, **IA.**, 200 E. 4th St.

\*(Asterisked stores replaced previous units in same or nearby locations)



and 12 more drugstores converted to self-service.



Reporting on A GREAT YEAR OF GROWTH:

# GLOBE STORES ENTER NEW MARKETS



Globe, 36th St. & E. Thomas Rd., Phoenix

## EXPANSION GAINS MOMENTUM AS YOUNG GLOBE DIVISION GOES WEST IN '65

"*Selective expansion*" was an objective when your company acquired the Globe Discount Department Stores in mid-1962. Last year we added Globes #4 and #5. This year the count reached eight, with openings in 1965 of two 100,000 sq. ft. units in Phoenix, Ariz., and a third in Albuquerque, N.M. *Outlook for 1966*: Three more giant Globes—El Paso, Tex., scheduled for pre-Christmas opening; Tucson, Ariz., Spring, 1966; Lubbock, Tex., late-summer, 1966. Yes, Globe is growing.



Opening day customers throng into Albuquerque Globe #6



"EVERYTHING UNDER THE SUN  
PRICED LOWER"



Reporting on A GREAT YEAR OF GROWTH:

# DRAMATIC NEW GAINS IN PHARMACY



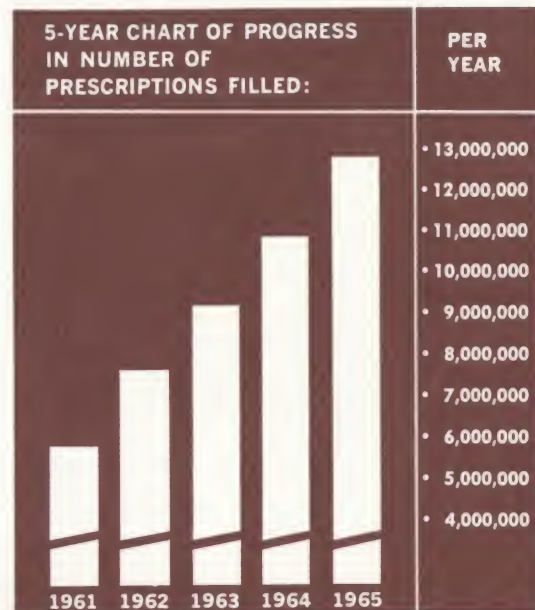
Rx Dept. Photo—Hayward, California

## WITH PROFESSIONAL PRIDE WE REPORT MILLION-A-MONTH PRESCRIPTION PACE

The first month of fiscal 1965 marked a milestone for Walgreen Drug Stores: We filled *over 1 million prescriptions*. The next month just missed. The next ten *all* went over the million mark. We have earned the good will of the medical profession and the loyalty of the public because of the *completeness* of our professional service, the *economy* of our prices, and our reputation for *reliability*, thanks to the skill, dedication and courtesy of our Registered Pharmacists.



**"YOUR PRESCRIPTION IS OUR  
MOST IMPORTANT RESPONSIBILITY"**





**Reporting on MANUFACTURING PROGRESS:**

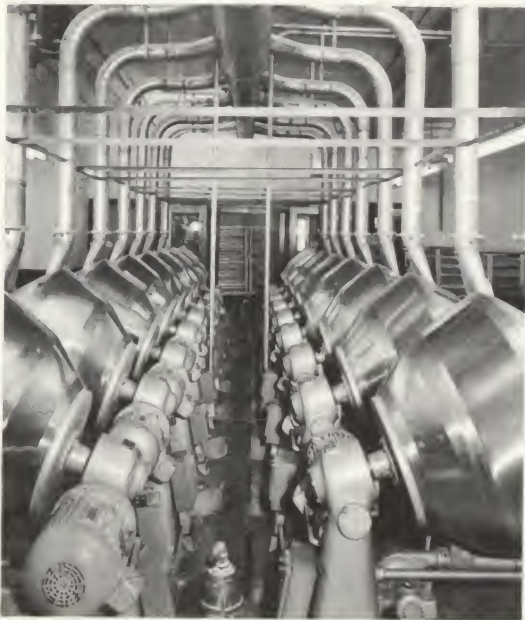
# Constant Introduction of New Products Keys Manufacturing Laboratory Success

The measure of our advance is underscored by this fact: Over 50% of current production is in products we have marketed within the past 5 years, giving fresh strength to our present operations and extra promise to our future.

Maintaining standards and controlling costs guarantees our customers the combination of fine *quality* and extra *economy* that creates product loyalty, produces repeat sales.

For our stores (and some 1900 independently-owned Walgreen Agency drugstores) our exclusive product line provides both a competitive price advantage and extra profitability.

There are over 300 Walgreen Products . . . for health, beauty, home. Make them *your* choice; recommend them to your friends. It is to your advantage both as a shareowner and as a discerning, value-wise consumer.



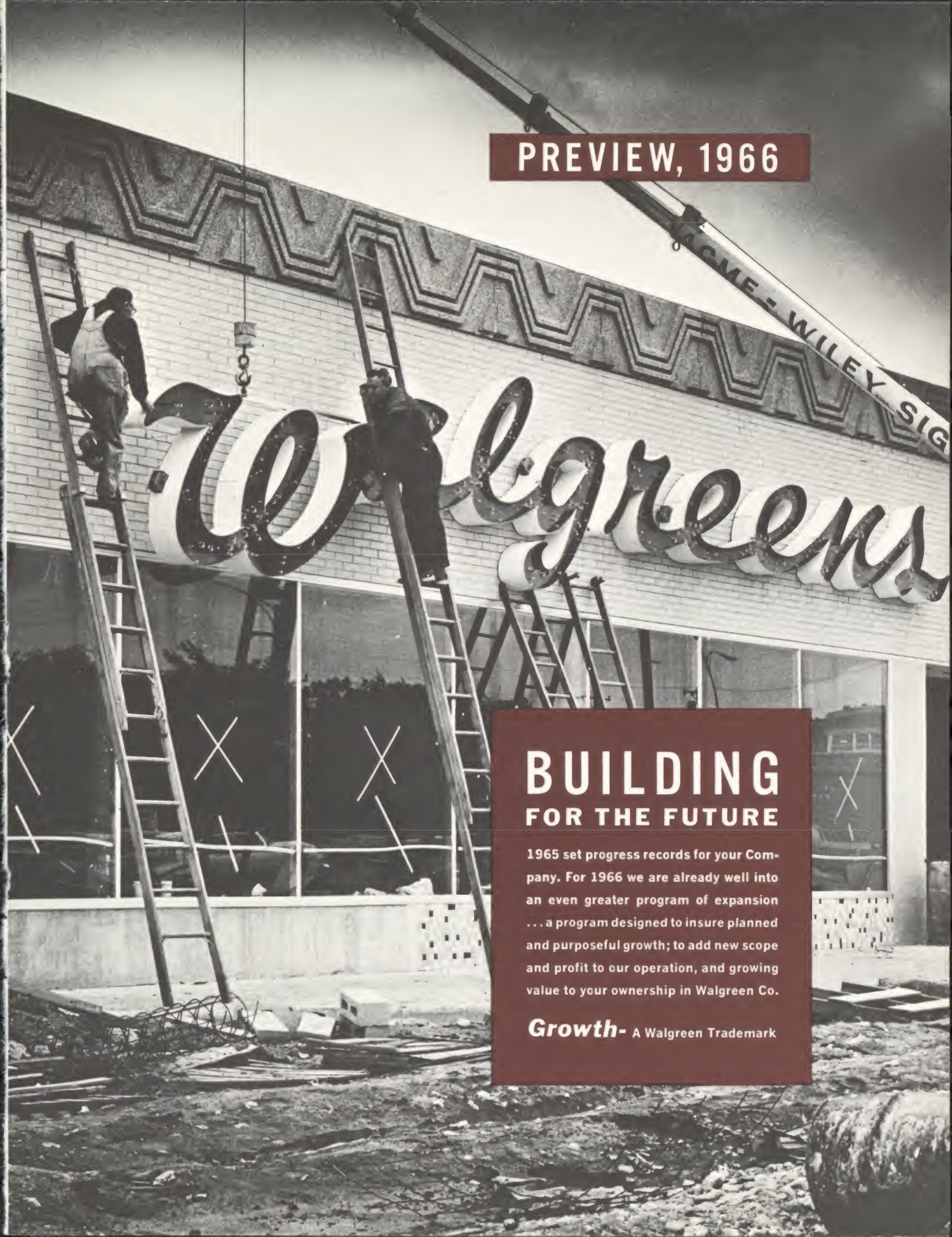
Battery of Tablet-Coating Drums, Chicago Laboratory



Three 1965 newcomers already achieving enthusiastic customer acceptance.

**PHOTO, right:**  
Walgreen sign rises to identify our third store for Waukegan, Ill.





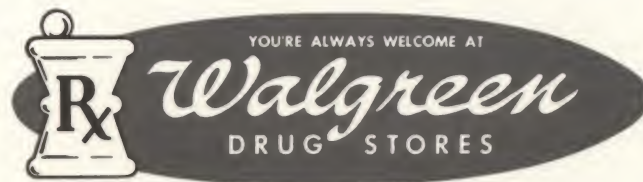
PREVIEW, 1966

## BUILDING FOR THE FUTURE

1965 set progress records for your Company. For 1966 we are already well into an even greater program of expansion ... a program designed to insure planned and purposeful growth; to add new scope and profit to our operation, and growing value to your ownership in Walgreen Co.

**Growth-** A Walgreen Trademark





**“More People Trade at Walgreens  
than at Any Other Drug Stores  
in the World...”**